

ATTACHMENT C

IDT Corporation 2002 SEC Form 10-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2002, OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number: 0-27898

IDT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of incorporation or organization)

22-3415036
(I.R.S. Employer Identification Number)

520 Broad Street
Newark, New Jersey 07102
(Address of principal executive offices, including area code)

(973) 438-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.01 per share
Class B Common Stock, par value \$.01 per share
(Title of class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on October 25, 2002 of the Common Stock of \$17.66 and of the Class B Common Stock of \$16.30, as reported on the New York Stock Exchange, was approximately \$821 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock (assuming conversion of the Registrant's Class A Common Stock) or Class B Common Stock have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of October 25, 2002, the Registrant had outstanding 25,020,972 shares of Common Stock, \$.01 par value, 9,816,988 shares of Class A Common Stock, \$.01 par value, and 54,091,855 shares of Class B Common Stock, \$.01 par value. Included in these numbers are 5,419,963 shares of Common Stock and 4,019,163 shares of Class B Common Stock, held by IDT Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the Registrant's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after July 31, 2002, is incorporated by reference in Part II (Item 5) and Part III (Items 10, 11, 12 and 13) of this Form 10-K.

INDEX
IDT CORPORATION
ANNUAL REPORT ON FORM 10-K

	<u>Page No.</u>
PART I	
Item 1. Business	1
Item 2. Properties	45
Item 3. Legal Proceedings	46
Item 4. Submission of Matters to a Vote of Security Holders	49
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	50
Item 6. Selected Financial Data	52
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	53
Item 7A. Quantitative and Qualitative Disclosures about Market Risks	78
Item 8. Financial Statements and Supplementary Data	79
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	79
PART III	
Item 10. Directors and Executive Officers of the Registrant	80
Item 11. Executive Compensation	80
Item 12. Security Ownership of Certain Beneficial Owners and Management	80
Item 13. Certain Relationships and Related Transactions	80
Item 14. Controls and Procedures	80
PART IV	
Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	81
SIGNATURES	85
CERTIFICATIONS	87
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

PART IV

Item 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.*

(a) The following documents are filed as part of this Report:

1. Financial Statements.
2. Financial Statement Schedules.

<u>Schedule No.</u>	<u>Description</u>
I.	Valuation and Qualifying Accounts

3. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.01(1)	Restated Certificate of Incorporation of the Registrant.
3.02(1)	By-laws of the Registrant.
3.03(16)	Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant.
10.01(2)	Employment Agreement between the Registrant and Howard S. Jonas.
10.02(18)	1996 Stock Option and Incentive Plan, as amended and restated, of the Registrant.
10.03(3)	Form of Stock Option Agreement under the 1996 Stock Option and Incentive Plan.
10.04(4)	Form of Registration Rights Agreement between certain stockholders and the Registrant.
10.05(1)	Lease of 294 State Street.
10.06(5)	Lease of 190 Main Street.
10.7(6)	Form of Registration Rights Agreement between Howard S. Jonas and the Registrant.
10.8(10)	Employment Agreement between the Registrant and James Courter.
10.9(7)	Agreement between Cliff Sobel and the Registrant.
10.10(10)	Employment Agreement between the Registrant and Hal Brecher.
10.11(10)	Employment Agreement between the Registrant and Howard S. Jonas.
10.12(8)	Agreement and Plan of Merger, dated April 7, 1998, by and among the Registrant, ADM Corp., InterExchange, Inc., David Turock, Eric Hecht, Richard Robbins, Bradley Turock, Wai Nam Tam, Mary Jo Altom and Lisa Mikulyne.
10.13(9)	Securities Purchase Agreement between the Registrant, Carlos Gomez and Union Telecard Alliance, LLC.
10.14(10)	Credit Agreement, dated as of May 10, 1999, by and among the Registrant, various lenders party thereto, Lehman Commercial Paper Inc., CIBC World Markets Corp. and Bankers Trust Company.
10.15(10)	Pledge Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.16(10)	Security Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.17(10)	Subsidiaries Guaranty, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.18(10)	Loan Agreement between the Registrant and Stephen Brown.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.19(11)	Internet/Telecommunications Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.20(11)	Joint Marketing Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.21(11)	IDT Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.22(11)	Net2Phone Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.23(11)	Assignment Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.24(11)	Tax Sharing and Indemnification Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.25(11)	Separation Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.26(11)	Co-location and Facilities Management Services Agreement, dated as of May 20, 1999, by and between Registrant and Net2Phone, Inc.
10.27(12)	Lease of 520 Broad Street, Newark, New Jersey.
10.28(12)	Amendment to Lease of 520 Broad Street, Newark, New Jersey.
10.29(13)	Option Agreement, dated as of March 3, 2000, between IDT Corporation and AT&T Corp.
10.30(14)	Amendment to Option Agreement, dated as of April 5, 2000 between IDT Corporation and AT&T Corp.
10.31(13)	Subscription Agreement, dated as of March 24, 2000, between IDT Corporation and Liberty Media Corporation.
10.32(14)	Amendment to Subscription Agreement, dated as of May 26, 2000, between IDT Corporation and Liberty Media Corporation.
10.33(13)	Letter Agreement, dated as of March 28, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.34(13)	Letter Agreement, dated as of March 30, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.35(15)	Conversion, Termination and Release Agreement, dated as of April 30, 2000, between IDT Corporation, Terra Networks, S.A., Terra Networks USA, Inc., Terra Networks Access Services USA LLC and Terra Networks Interactive Services USA LLC.
10.36(19)	Stock Exchange Agreement, dated as of April 18, 2001, by and among IDT Investments Inc., IDT Corporation, IDT America, Corp., 225 Old NB Road, Inc., 226 Old NB Road, Inc., 60 Park Place Holding Company, Inc., Liberty Media Corporation, Microwave Holdings, L.L.C. and Liberty TP Management, Inc.
10.37(19)	Stockholders Agreement, dated as of November 26, 1997, by and among Teligent, Inc., Microwave Services, Inc., Telcom-DTS Investors, L.L.C. and NTTA&T Investment Inc. (Incorporated by reference to Exhibit 2 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on December 8, 1997 with respect to securities of Teligent, Inc.)
10.38(19)	Registration Rights Agreement, dated as of March 6, 1998, by and between Teligent, Inc. and Microwave Services, Inc. (Incorporated by reference to Exhibit 6 to Amendment No. 1 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on March 9, 1998 with respect to securities of Teligent, Inc.)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.60*	Amendment to the Employment Agreement, dated October 24, 2002, between the Registrant and E. Brian Finkelstein.
21.01*	Subsidiaries of the Registrant.
23.01*	Consent of Ernst & Young LLP.
99.1(a)*	Certification of Chief Executive Officer
99.1(b)*	Certification of Chief Financial Officer

* filed herewith

- (1) Incorporated by reference to Form S-1 filed February 21, 1996 file no. 333-00204.
- (2) Incorporated by reference to Form S-1 filed January 9, 1996 file no. 333-00204.
- (3) Incorporated by reference to Form S-8 filed January 14, 1996 file no. 333-19727.
- (4) Incorporated by reference to Form S-1 filed March 8, 1996 file no. 333-00204.
- (5) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1997, filed October 29, 1997.
- (6) Incorporated by reference to Form S-1 filed March 14, 1996 file no. 333-00204.
- (7) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1997, filed February 2, 1998.
- (8) Incorporated by reference to Form 8-K filed April 22, 1998.
- (9) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1998, filed December 4, 1998.
- (10) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999, filed March 17, 1999.
- (11) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999, filed June 14, 1999.
- (12) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1999, filed November 4, 1999.
- (13) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2001, filed March 12, 2000.
- (14) Incorporated by reference to Form 8-K filed March 31, 2000.
- (15) Incorporated by reference to Schedule 14C filed June 12, 2000.
- (16) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2000, filed June 14, 2000.
- (17) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2000, filed December 15, 2000.
- (18) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2001, filed March 19, 2001.
- (19) Incorporated by reference to Schedule 13D filed on April 30, 2001.
- (20) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2001, filed December 17, 2001.
- (21) Incorporated by reference to Form 8-K filed January 3, 2002.
- (22) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2002, filed June 14, 2002.
- (23) Incorporated by reference to Schedule 13D filed on August 21, 2000, with respect to Net2Phone, by IDT Investments, IDT and Howard S. Jonas.
- (24) Incorporated by reference to Schedule 13D, filed on October 25, 2001, with respect to Net2Phone, by Net2Phone Holdings, L.L.C., IDT Domestic-Union, LLC, IDT Investments Inc., IDT Nevada Holdings, Inc., IDT Domestic Telecom, Inc., IDT Telecom, Inc., IDT Corporation, Howard S. Jonas, ITelTech, LLC and AT&T Corp.
- (25) Incorporated by reference to Form S-1/A of Net2Phone filed June 20, 1999.
- (26) Incorporated by reference to Schedule 13D, filed on November 15, 2001, with respect to Net2Phone, by IT Stock, Net2Phone Holdings, IDT D-U, IDT Investments, IDT Nevada, IDT D-T, IDT Telecom, IDT, Howard S. Jonas, ITelTech and AT&T.

(b) Reports on Form 8-K.

On August 28, 2002, the Registrant filed Amendment No.1 to its Current Report on Form 8-K originally filed on January 3, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

IDT CORPORATION

By: /s/ JAMES A. COURTER
James A. Courter
Vice Chairman and Chief Executive Officer

Date: October 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Titles</u>	<u>Date</u>
<u>/s/ HOWARD S. JONAS</u> Howard S. Jonas	Chairman	October 29, 2002
<u>/s/ JAMES A. COURTER</u> James A. Courter	Vice Chairman and Chief Executive Officer (Principal Executive Officer)	October 29, 2002
<u>/s/ STEPHEN R. BROWN</u> Stephen R. Brown	Chief Financial Officer and Director (Principal Financial Officer)	October 29, 2002
<u>/s/ MARCELO FISCHER</u> Marcelo Fischer	Chief Accounting Officer and Controller (Principal Accounting Officer)	October 29, 2002
<u>/s/ MICHAEL FISCHBERGER</u> Michael Fischberger	Chief Operating Officer and Director	October 29, 2002
<u>/s/ JOYCE J. MASON</u> Joyce J. Mason	Director	October 29, 2002
<u>/s/ MARC E. KNOLLER</u> Marc E. Knoller	Director	October 29, 2002
<u>/s/ MOSHE KAGANOFF</u> Moshe Kaganoff	Director	October 29, 2002
<u>/s/ GEOFFREY ROCHWARGER</u> Geoffrey Rochwarger	Director	October 29, 2002
<u>/s/ MEYER A. BERMAN</u> Meyer A. Berman	Director	October 29, 2002
<u>/s/ J. WARREN BLAKER</u> J. Warren Blaker	Director	October 29, 2002

<u>/s/ SAUL K. FENSTER</u> Saul K. Fenster	Director	October 29, 2002
<u>/s/ MICHAEL J. LEVITT</u> Michael J. Levitt	Director	October 29, 2002
<u>/s/ WILLIAM ARTHUR OWENS</u> William Arthur Owens	Director	October 29, 2002
<u>/s/ PAUL REICHMANN</u> Paul Reichmann	Director	October 29, 2002
<u>/s/ WILLIAM F. WELD</u> William F. Weld	Director	October 29, 2002

CERTIFICATIONS

I, James A. Courter, Chief Executive Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ JAMES A. COURTER

James A. Courter

CERTIFICATIONS

I, Stephen R. Brown, Chief Financial Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ STEPHEN R. BROWN

Stephen R. Brown

IDT CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors	F-2
Consolidated Balance Sheets as of July 31, 2001 and 2002	F-3
Consolidated Statements of Operations for the Years Ended July 31, 2000, 2001 and 2002	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended July 31, 2000, 2001 and 2002	F-5
Consolidated Statements of Cash Flows for the Years Ended July 31, 2000, 2001 and 2002	F-6
Notes to Consolidated Financial Statements	F-7
Financial Statement Schedule—Valuation and Qualifying Accounts	F-36

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2001 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

New York, New York
October 24, 2002

/s/ ERNST & YOUNG LLP

IDT CORPORATION
CONSOLIDATED BALANCE SHEETS

	July 31	
	2001	2002
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,091,071	\$ 351,248
Marketable securities	3,489	658,731
Trade accounts receivable, net of allowance for doubtful accounts of \$22,508 at July 31, 2001 and \$38,893 at July 31, 2002	116,759	126,153
Other current assets	32,413	65,291
Total current assets	1,243,732	1,201,423
Property, plant and equipment, net	224,042	250,631
Goodwill	178,293	32,702
Licenses and other intangibles, net	19,511	25,503
Investments	60,732	58,903
Other assets	155,279	38,758
Total assets	<u>\$1,881,589</u>	<u>\$1,607,920</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 163,313	\$ 121,529
Accrued expenses	54,893	124,437
Deferred revenue	71,387	112,183
Capital lease obligations—current portion	20,927	22,960
Other current liabilities	17,819	11,866
Total current liabilities	328,339	392,975
Deferred tax liabilities, net	390,914	241,973
Capital lease obligations—long-term portion	50,179	45,398
Other liabilities	14,502	3,088
Total liabilities	783,934	683,434
Minority interests	21,419	54,956
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000,000; no shares issued	—	—
Common stock, \$.01 par value; authorized shares—100,000,000; 22,791,789 and 19,568,634 shares issued and outstanding in 2001 and 2002, respectively	228	196
Class A common stock, \$.01 par value; authorized shares—35,000,000; 9,816,988 shares issued and outstanding in 2001 and 2002	98	98
Class B common stock, \$.01 par value; authorized shares—100,000,000; 39,291,411 and 49,990,681 shares issued and outstanding in 2001 and 2002, respectively	393	500
Additional paid-in capital	494,093	606,387
Treasury stock, at cost	(138,087)	(153,713)
Accumulated other comprehensive loss	(2,575)	(2,675)
Retained earnings	722,086	418,737
Total stockholders' equity	1,076,236	869,530
Total liabilities and stockholders' equity	<u>\$1,881,589</u>	<u>\$1,607,920</u>

See accompanying notes to consolidated financial statements.

IDT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended July 31		
	2000	2001	2002
	(in thousands, except per share data)		
Revenues	\$1,093,912	\$1,230,950	\$1,531,614
Costs and expenses:			
Direct cost of revenues (exclusive of items shown below)	918,257	1,066,845	1,205,003
Selling, general and administrative	343,702	337,107	370,577
Depreciation and amortization	48,564	60,351	66,016
Impairment charges	—	199,357	114,310
Total costs and expenses	1,310,523	1,663,660	1,755,906
Loss from operations	(216,611)	(432,710)	(224,292)
Interest income, net	7,231	52,768	21,757
Other income (expense):			
Equity in loss of affiliates	(6,289)	(75,066)	(43,989)
Gain on sales of subsidiary stock	350,344	1,037,726	—
Investment and other income (expense), net	258,218	164,762	(12,117)
Income (loss) before income taxes, minority interests, extraordinary item and cumulative effect of accounting change	392,893	747,480	(258,641)
Minority interests	(59,336)	5,726	22,070
Provision for (benefit from) income taxes	218,403	209,395	(124,345)
Income (loss) before extraordinary item and cumulative effect of accounting change	233,826	532,359	(156,366)
Extraordinary loss on retirement of debt, net of income taxes of \$1,894	(2,976)	—	—
Cumulative effect of accounting change, net of income taxes of \$3,525	—	—	(146,983)
Net income (loss)	\$ 230,850	\$ 532,359	\$ (303,349)
Earnings per share:			
Income (loss) before extraordinary item and cumulative effect of accounting change:			
Basic	\$ 3.34	\$ 7.79	\$ (2.08)
Diluted	\$ 3.11	\$ 7.12	\$ (2.08)
Extraordinary loss on retirement of debt, net of income taxes:			
Basic	\$ (0.04)	\$ —	\$ —
Diluted	\$ (0.04)	\$ —	\$ —
Cumulative effect of accounting change, net of income taxes:			
Basic	\$ —	\$ —	\$ (1.96)
Diluted	\$ —	\$ —	\$ (1.96)
Net income (loss):			
Basic	\$ 3.30	\$ 7.79	\$ (4.04)
Diluted	\$ 3.07	\$ 7.12	\$ (4.04)
Weighted-average number of shares used in calculation of earnings per share:			
Basic	69,933	68,301	75,108
Diluted	75,239	74,786	75,108

See accompanying notes to consolidated financial statements.

IDT CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at July 31, 1999	23,982,854	\$240	10,029,758	\$100	34,012,612	\$340	\$317,022	\$ —	\$ —	\$ (41,123)	\$276,579
Exercise of stock options	1,310,700	13	—	—	1,310,700	13	14,508	—	—	—	14,534
Income tax benefit from stock options exercised	—	—	—	—	—	—	11,262	—	—	—	11,262
Conversion of Class A common stock to common stock	59,525	—	(59,525)	—	—	—	—	—	—	—	—
Exercise of warrants	19,963	—	—	—	19,963	—	117	—	—	—	117
Modification of stock options	—	—	—	—	—	—	985	—	—	—	985
Issuance of common stock and Class B common stock	3,728,949	37	—	—	3,728,949	37	128,574	—	—	—	128,648
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	(94,044)	—	(94,044)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	1,391	—	1,391
Repurchase of common stock and Class B common stock	(3,142,735)	(30)	—	—	(3,142,735)	(31)	(101,822)	—	—	—	(101,883)
Net income for the year ended July 31, 2000	—	—	—	—	—	—	—	—	230,850	230,850	230,850
Comprehensive income	—	—	—	—	—	—	—	—	138,197	—	—
Balance at July 31, 2000	25,959,256	260	9,970,233	100	35,929,489	359	370,646	—	(92,653)	189,727	468,439
Exercise of stock options	698,451	7	—	—	343,000	4	6,872	—	—	—	6,883
Income tax benefit from stock options exercised	—	—	—	—	—	—	2,676	—	—	—	2,676
Conversion of Class A common stock to common stock	153,245	2	(153,245)	(2)	—	—	—	—	—	—	—
Issuance of stock options	—	—	—	—	—	—	2,000	—	—	—	2,000
Modification of stock options	—	—	—	—	—	—	3,082	—	—	—	3,082
Issuance of Class B common stock	—	—	—	—	7,038,085	71	106,497	—	—	—	106,568
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	89,148	—	89,148
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	930	—	930
Repurchase of common stock and Class B common stock	(4,019,163)	(41)	—	—	(4,019,163)	(41)	2,320	(138,087)	—	—	(135,849)
Net income for the year ended July 31, 2001	—	—	—	—	—	—	—	—	532,359	532,359	532,359
Comprehensive income	—	—	—	—	—	—	—	—	622,437	—	—
Balance at July 31, 2001	22,791,789	228	9,816,988	98	39,291,411	393	494,093	(138,087)	(2,575)	722,086	1,076,236
Exercise of stock options	1,906,594	19	—	—	4,497,114	45	53,860	—	—	—	53,924
Income tax benefit from stock options exercised	—	—	—	—	—	—	21,601	—	—	—	21,601
Conversion of common stock to Class B common stock	(3,728,949)	(37)	—	—	3,810,265	38	(1)	—	—	—	—
Modification of stock options	—	—	—	—	—	—	1,894	—	—	—	1,894
Issuance of common stock for acquisitions	—	—	—	—	2,391,891	24	34,940	—	—	—	34,964
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	(1,064)	—	(1,064)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	964	—	964
Repurchase of common stock	(1,400,800)	(14)	—	—	—	—	—	(15,626)	—	—	(15,640)
Net loss for the year ended July 31, 2002	—	—	—	—	—	—	—	—	(303,349)	(303,349)	(303,349)
Comprehensive loss	—	—	—	—	—	—	—	—	(303,449)	—	—
Balance at July 31, 2002	19,568,634	\$196	9,816,988	\$ 98	49,990,681	\$500	\$606,387	\$(153,713)	\$(2,675)	\$418,737	\$869,530

See accompanying notes to consolidated financial statements.

IDT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended July 31		
	2000	2001	2002
	(in thousands)		
Operating activities			
Net income (loss)	\$ 230,850	\$ 532,359	\$ (303,349)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	48,564	60,351	66,016
Impairment charges	—	199,357	114,310
Extraordinary loss on retirement of debt before income taxes	4,870	—	—
Cumulative effect of accounting change before income taxes	—	—	150,508
Minority interests	(59,336)	5,726	22,070
Price guarantee of Class B common stock	—	—	5,310
Deferred tax liabilities	216,903	204,188	(127,342)
Issuance of common stock to charitable foundation	—	26,378	—
Net realized (gains)/losses from sales of marketable securities and investments	(261,025)	148,724	6,807
Equity in loss of affiliates	6,289	75,066	43,989
Non-cash compensation	42,917	3,082	1,894
Gain on Tycom settlement	—	(313,486)	—
Gain on sales of subsidiary stock	(350,344)	(1,037,726)	—
Changes in assets and liabilities:			
Trade accounts receivable	(52,643)	36,029	29,151
Other assets	(28,194)	14,234	(4,364)
Trade accounts payable, accrued expenses and other liabilities	90,053	64,675	(23,238)
Deferred revenue	34,026	7,271	39,981
Net cash provided by (used in) operating activities	(77,070)	26,228	21,743
Investing activities			
Purchases of property, plant and equipment	(101,192)	(106,513)	(39,245)
Issuance of notes receivable	—	(12,089)	(8,543)
Investments and acquisitions, net of cash acquired	(38,803)	(73,722)	(81,398)
Collection of notes receivable	9,524	—	—
Sales of marketable securities	—	164,052	742,866
Purchases of marketable securities	(7,059)	—	(1,399,171)
Net proceeds from sale of equity interests in subsidiary	115,434	1,042,113	—
Net cash (used in) provided by investing activities	(22,096)	1,013,841	(785,491)
Financing activities			
Proceeds from exercise of stock options for Net2Phone	8,172	—	—
Distributions to minority shareholder of a subsidiary	(3,177)	(18,908)	(19,018)
Proceeds from borrowings	13,898	—	—
Proceeds from exercise of warrants	117	—	—
Proceeds from exercise of stock options	14,534	6,885	53,924
Repayment of capital lease obligations	(9,833)	(14,736)	(19,033)
Repayment of borrowings	(108,146)	(26,054)	(6,308)
Proceeds from issuance of common stock and Class B common stock	128,648	74,787	—
Proceeds from offerings of common stock by Net2Phone	261,189	—	—
Collection of loans to stockholders by Net2Phone	623	—	—
Proceeds from sale of subsidiary stock	5,000	—	30,000
Proceeds from issuance of stock options	—	2,000	—
Repurchases of common stock and Class B common stock	(101,883)	(135,849)	(15,640)
Net cash provided by (used in) financing activities	209,142	(111,877)	23,925
Net (decrease) increase in cash	109,976	928,192	(739,823)
Cash and cash equivalents at beginning of year	52,903	162,879	1,091,071
Cash and cash equivalents at end of year	\$ 162,879	\$ 1,091,071	\$ 351,248
Supplemental disclosure of cash flow information			
Cash payments made for interest	\$ 10,074	\$ 7,997	\$ 5,739
Cash payments made for income taxes	\$ 1,050	\$ 5,963	\$ 12,176
Supplemental schedule of non-cash investing and financing activities			
Purchases of property, plant and equipment through capital lease obligations	\$ 45,541	\$ 27,010	\$ 19,311
Exchange of Net2Phone common stock for shares of Yahoo! Inc.	\$ —	\$ 150,000	\$ —
Issuance of Class B common stock for acquisitions	\$ —	\$ —	\$ 34,964

See accompanying notes to consolidated financial statements.

IDT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2002

1. Summary of Significant Accounting Policies

Description of Business

IDT Corporation ("IDT" or the "Company") is a facilities-based multinational communications company that provides services and products to retail and wholesale customers worldwide, including prepaid debit and rechargeable calling cards, consumer long distance services, and wholesale carrier services. The Company also operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

Winstar Holdings ("Winstar"), a wholly owned subsidiary of IDT, is a broadband and telephony service provider to commercial and governmental customers. Through its fixed-wireless and fiber infrastructure, Winstar offers local and long distance phone services, and high speed Internet and data communications solutions.

On May 4, 2001, the Company declared a stock dividend of one share of Class B common stock for every one share of common stock, Class A common stock and Class B common stock. IDT distributed the dividend shares on May 31, 2001 to shareholders of record on May 14, 2001. The stock dividend has been accounted for as a stock split and all references to the number of common shares, per common share amounts and stock options have been restated to give retroactive effect to the stock dividend for all periods presented. The Class B common stock commenced trading on the New York Stock Exchange on June 1, 2001 under the ticker symbol "IDT.B".

Investment in Net2Phone

Until August 2000, the Company also provided Internet telephony services through its majority owned subsidiary Net2Phone, Inc. ("Net2Phone"). On August 11, 2000, the Company completed the sale of 14.9 million shares of its holdings of Net2Phone's Class A common stock, at a price of \$75 per share, to ITelTech, LLC ("ITelTech"), a Delaware limited liability company controlled by AT&T Corporation ("AT&T"). In addition, ITelTech purchased four million newly-issued shares of Class A common stock from Net2Phone at a price of \$75 per share. These transactions reduced the voting stake of IDT in Net2Phone from approximately 56% to 21% and its economic stake in Net2Phone from approximately 45% to 16%. In recognition of these transactions, the Company recorded a gain on sales of subsidiary stock of \$1.038 billion during the year ended July 31, 2001, and deconsolidated Net2Phone effective August 11, 2000. Accordingly, the Company accounted for its investment in Net2Phone subsequent to the deconsolidation using the equity method of accounting.

On October 23, 2001, IDT, Liberty Media Corporation ("Liberty Media") and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T now holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 46% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 63% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. Through July 31, 2002, the Company accounted for its investment in the LLC using the equity method since its control of the LLC was deemed to be temporary due to unilateral liquidation rights held by each of the LLC members. As of July 31, 2002, IDT's equity investment in Net2Phone was 19.2%.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets to be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. SFAS No. 144 also amends Accounting Research Bulletins ("ARB" 51), *Consolidated Financial Statements*, as amended by SFAS No. 94, *Consolidation of ALL Majority-Owned Subsidiaries*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. IDT will adopt SFAS No. 144 as of August 1, 2002, and will thus no longer

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

account for its investment in Net2Phone under the equity method of accounting. Therefore, effective August 1, 2002, Net2Phone will be reconsolidated. The consolidation will result in the inclusion of IDT's and Net2Phone's results of operations and financial position beginning August 1, 2002. This change in accounting will not change the net income or loss that would have been reported had the Company continued to account for its investment in Net2Phone under the equity method of accounting. Summarized financial information for Net2Phone as of and for the year ended July 31 is as follows:

	2001	2002
	(in thousands)	
Total current assets	\$ 287,572	\$ 114,138
Total assets	411,403	171,696
Working capital	218,100	60,321
Revenues	150,198	137,855
Loss from operations	(240,210)	(257,794)

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest that is not temporary ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than and other than temporary controlling voting interest, are accounted for using the equity method of accounting. Investments in companies in which IDT does not have an other than temporary controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded. Due to the adoption of SFAS No. 144, effective August 1, 2002, IDT will consolidate all companies in which it has a controlling voting interest, regardless of whether that control is temporary.

The effect of any changes in IDT's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in gain on sales of subsidiary stock.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

IDT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

Communications services are recognized as revenue when services are provided. Revenue on sales of prepaid calling cards is deferred upon activation of the cards and recognized as the card balances are decremented based on minute usage and service charges. Unused balances are recognized as revenue upon expiration of the calling cards, which is generally the later of six months from the date of first use and twelve months from activation.

Revenues at our Winstar segment related to high-speed Internet and data services and local and long-distance voice services are recognized when services are provided.

Purchase of Network Capacity

Purchases of network capacity pursuant to Indefeasible Right of Use ("TRU") agreements are capitalized at cost and amortized over the term of the capacity agreement, which is generally 15 years. Historically, we have not been a provider of network capacity.

Direct Cost of Revenues

Direct cost of revenues consists primarily of termination costs, toll-free costs, and network costs—including customer/carrier interconnect charges and leased fiber circuit charges. Direct cost of revenues also includes connectivity costs for the Winstar's fixed-wireless network backbone and lease payments for Winstar's network of buildings. Direct cost of revenues excludes depreciation and amortization expense.

Property, Plant and Equipment

Equipment, buildings, and furniture and fixtures are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range as follows: equipment—5 to 7 years; buildings—40 years; and furniture and fixtures—5 to 7 years. Leasehold improvements are depreciated using the straight line method over the term of their lease or their estimated useful lives, whichever is shorter.

Advertising Expense

The majority of IDT's advertising expense relates to its consumer long distance business. Most of the advertisements are in print or television media, with expenses recorded as they are incurred. Some of the advertising for the consumer long distance business is also done on a cost-per-acquisition basis, where the Company pays the provider of advertising based on a fixed amount per each customer who becomes a subscriber of its services. In such cases, the expenses are recorded based on the number of customers who were added during the period in question.

For the years ended July 31, 2000, 2001 and 2002, advertising expense totaled approximately \$46.7 million, \$17.1 million and \$16.0 million, respectively.

During the year ended July 31, 2000, the Company incurred approximately \$28.0 million of costs to terminate advertising arrangements. These advertising termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. No advertising termination costs were incurred for the years ended July 31, 2001 and 2002.

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Software Development Costs

Costs for the internal development of new software products and substantial enhancements to existing software products to be sold are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 2000, 2001 and 2002, research and development costs totaled approximately \$4.7 million, \$2.5 million and \$1.0 million, respectively.

Capitalized Internal Use Software Costs

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. For the years ended July 31, 2000, 2001 and 2002, the Company has capitalized \$8.6 million, \$2.5 million and \$1.4 million, respectively, of internal use software costs as computer software.

Repairs and Maintenance

We charge the cost of repairs and maintenance, including the cost of replacing minor items not constituting substantial betterment, to selling, general and administrative expenses as these costs are incurred.

Long-Lived Assets

In accordance with SFAS No. 121, the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis of the recoverability utilizes undiscounted cash flows. The measurement of the loss, if any, will be calculated as the amount by which the carrying amount of the asset exceeds the fair value.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value. At July 31, 2001 and 2002, the Company had 89% and 60%, respectively, of its cash and cash equivalents in three and two financial institutions, respectively.

Goodwill

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but are subject to impairment tests, performed at least annually, in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

Other Intangibles

Licenses are amortized over 5 years using the straight-line method. Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Acquired core technology is amortized over 3 to 5 years. The Company systematically reviews the recoverability of its acquired licenses and other intangible assets to determine whether an impairment has occurred. Upon determination that the carrying value of acquired licenses

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and other intangible assets will not be recovered based on the undiscounted future cash flows of the acquired business, the carrying value of such acquired licenses and other intangible assets would be deemed impaired and would be reduced by a charge to operations in the amount that the carrying value exceeds the fair value.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries denominated in foreign currencies at July 31 are translated at year-end rates of exchange and monthly results of operations are translated at the average rates of exchange for that month. Gains or losses resulting from translating foreign currency financial statements are recorded as a separate component of accumulated other comprehensive loss in stockholders' equity.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependant upon the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share

Basic earnings per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of convertible securities, stock options, warrants, contingently issuable shares and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Vulnerability Due to Certain Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, marketable securities and trade accounts receivable. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers in various geographic regions comprising the Company's customer base. No single customer accounted for more than 10% of consolidated revenues in Fiscal 2002. However, our 5 largest customers accounted for 15.2% of consolidated revenues in Fiscal 2002. This concentration of revenues increases our risk associated with nonpayment by these customers.

The Company is subject to risks associated with its international operations, including changes in exchange rates, difficulty in trade accounts receivable collection and longer payment cycles.

Management regularly monitors the creditworthiness of its domestic and international customers and believes that it has adequately provided for any exposure to potential credit losses.

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2002, the carrying value of the Company's trade accounts receivable, other current assets, trade accounts payable, accrued expenses, deferred revenue, capital lease obligations and other current liabilities approximate fair value.

Stock Based Compensation

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company applies APB No. 25 in accounting for its stock option plans and, accordingly, compensation cost is recognized for its stock options only if it relates to non-qualified stock options for which the exercise price was less than the fair market value of the Company's common stock or Class B common stock as of the date of grant. The compensation cost of these grants is amortized on a straight-line basis over their vesting periods. The Company follows the disclosure only provisions of SFAS 123 and provides pro forma disclosures of net income (loss) and net income (loss) per share as if the fair value-based method of accounting for stock options, as defined in SFAS 123, had been applied.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, *Accounting for Retirement Obligations* ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. The Company is required to adopt SFAS 143 on August 1, 2002 and expects that the provisions will not have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, will now be used to classify those gains and losses because Statement No. 4 has been rescinded. Statement No. 44 was issued to establish accounting requirements for the effects of transition to provisions of the Motor Carrier Act of 1980. Because the transition has been completed, Statement No. 44 is no longer necessary.

SFAS 145 amends Statement No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects. SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. IDT is required to adopt SFAS 145, effective for Fiscal 2003. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB Opinion No. 30, will be reclassified to conform with the provisions of SFAS 145. The Company does not expect the adoption of SFAS 145 will have a material impact on its consolidated financial statements.

IDT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). SFAS 146 requires Companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). SFAS 146 replaces EITF 94-3. The Statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 will have a material impact on its consolidated financial statements.

2. Marketable Securities

The Company classifies all of its marketable securities as "available-for-sale securities." Such marketable securities consist primarily U.S. Government Agency Obligations, which are stated at market value, with unrealized gains and losses in such securities reflected, net of tax, as "other comprehensive income (loss)" in stockholders' equity. The Company intends to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all marketable securities are classified as "short-term." The following is a summary of marketable securities as of July 31, 2002:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
Short-term				
Available-for-sale securities:				
U.S. Government Agency Obligations	\$628,635	\$3,490	\$ —	\$632,125
Other marketable securities	32,269	—	(5,663)	26,606
	<u>\$660,904</u>	<u>\$3,490</u>	<u>\$(5,663)</u>	<u>\$658,731</u>

The following is a summary of marketable securities as of July 31, 2001:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(in thousands)		
Short-term				
Available-for-sale securities:				
U.S. Government Agency Obligations	\$1,150	\$—	\$ (33)	\$1,117
Other marketable securities	6,318	—	(3,946)	2,372
	<u>\$7,468</u>	<u>\$—</u>	<u>\$(3,979)</u>	<u>\$3,489</u>

Sales and realized (gains) losses from the sale of available-for-sale securities for the years ended July 31, 2000, 2001 and 2002 amounted to approximately \$104.2 million and \$(28.3) million, \$162.0 million and \$126.0 million, and \$742.9 million and \$(1.5) million, respectively. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the sales of marketable securities.

During Fiscal 2000, IDT sold approximately \$55.0 million of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately \$1.2 million. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately \$22.0 million were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately \$0.8 million were included in accumulated other comprehensive loss.